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SUBJECT: WHAT MIGHT THE NEW GOVERNMENT LOOK LIKE?

Classified By: POL M/C Brian Flora, reasons 1.5 (b) (d)

1. (C/NF) Summary: With the parties polling eerily similar to where they were at this point in the 2004 election, one might assume that the next government will look much like the last one. However, even if the gross percentages are the same, the next government will be very different, and possibly different in ways that directly affect U.S. interests. Two weeks into the eight-week campaign, the most likely scenario is another Liberal minority government. However, even with NDP support, which is not a given, a Liberal government might not have enough seats to pass legislation or even to stave off a vote of no-confidence. It would be inherently shaky from the outset and would have trouble governing effectively. The country might well go back into an election before 2006 is over. To survive, any government would have to seek new arrangements, such as a formal or informal coalition, that have not been tried in Canada before. In any event, the next government of Canada will likely not enjoy the political support it needs to make any bold decisions. The coming year might well bog down in relative political chaos. End Summary

CURRENT STANDINGS

2. (C/NF) At the close of the 38th Parliament the Liberals and NDP together had 151 seats (133/18), and the Conservatives and Bloc together had 152 (98/18), with four independents and two vacancies. A total of 156 seats are required to form a majority government, including one seat for the Speaker. According to the most recent Strategic Council polls, there are some 40 seats in play in the election. As of mid-December this is how we see things shaping up for the parties:

-- The Liberal Party is expected to lose several of its 21 seats in Quebec (of 75 total seats there), several in British Columbia, and possibly the single Liberal seat in Alberta held by Deputy PM McLellan. Some commentators even predict a near-sweep for the Bloc Quebecois in Quebec with only portions of Montreal Island and Gatineau remaining in Liberal hands. Though polls indicate the Liberals will likely pick up extra seats in Atlantic Canada, there is no where else in Canada they could pick up enough new seats to make up for a big loss in Quebec.

-- The Conservative Party will not win any seats in Quebec, or make significant gains in urban or suburban Toronto, where a recent poll shows the Tories trailing by 19 points. A new poll by the Strategic Council, however, shows the Conservatives rising 9 points in Southwestern Ontario, where Strategic Council President Allan Gregg says it could pick up as many as 15 seats. The same poll suggests they would lose several seats in BC, but this would still leave the Conservatives with a net gain.

-- The New Democratic Party is currently holding 18 seats, and they are expected to make at least modest gains (unless large numbers of NDP supporters vote Liberal to thwart a perceived Conservative victory) in urban British Columbia, Southwestern Ontario, and Saskatchewan where the party is well supported by the organization behind a provincial NDP government. In SW Ontario this could effectively split the left-leaning vote to the advantage of the Conservatives. It also appears that in several ridings in B.C. and Saskatchewan the fight will be between the Conservative and NDP candidates, with the Liberals effectively marginalized. Look for modest gains overall.

-- In the wake of the sponsorship scandal which has cut the legs out from under the Liberal Party in Quebec, no party is in a better position for a winning campaign than the Bloc Quebecois. For all intents and purposes, while polling numbers on support for separatism can be questioned, when it comes down to voting day there are only two options, Liberal and Bloc, and the Liberal brand is severely tarnished. Predictions are that the Bloc will gain around 4-6 new seats.

13. (C/NF) While it is premature to speculate over the next government, it is useful to frame the range of options for the final outcome, and point out those with a significant impact on U.S. interests. They are:

-- Liberal Majority: Despite the musings of Liberal strategist David Herle at this summer's Liberal Caucus retreat, this would require 23 new seats without a loss. It is highly unlikely the Liberals could ever score a majority without holding a significant number of seats in Quebec.

-- Conservative Majority: Until such time as the Conservative Party breaks into Quebec in a meaningful way, and finds a way to pick up more than a quarter of the seats in Atlantic Canada, there will not be a Conservative majority.

-- Conservative Minority: If there were a complete disaster for the Liberals in Quebec, and good overall gains for the Conservatives in southwestern Ontario, B.C., and Atlantic Canada, the Conservative Party could come out on top. This is the nightmare scenario some fear, because the Tories could be forced to seek the support of the Bloc to have a tenable long-term government (although Bloc participation would not be a requirement to form government). It is difficult to imagine a scenario where a Conservative-Bloc arrangement would be tenable for long, given the deep social and economic differences. But one option suggested by political analyst Sean Durkan would be for the two parties (possibly with the support of the NDP) to agree on a simple agenda of cleaning up government, and leave new policy initiatives alone.

None of these outcomes are considered likely, which leaves some form of a Liberal Minority as the most probable. The exact nature of such a government is an open question but two options are worth considering.

-- Liberal Minority NDP = Majority: If the NDP picks up a greater number of seats than the Liberals lose, they could join the Liberals to produce a voting majority. The NDP would thus be even more indispensable than they were in the 38th parliament. They could informally agree to support the Liberal government in exchange for Liberal support for NDP policy interests, not unlike their recent Parliamentary performance where they exacted concessions on a rolling basis so as to retain maximum leverage. They could enter a formal Liberal/NDP arrangement that stops short of a full coalition, something they would shy away from given their fear of being engulfed by the Liberals. Or they could form a European-style full-on formal coalition, with NDP members sitting as cabinet ministers. Both of these "alliance" scenarios would also require a fair amount of contrition on the part of the Liberals.

NOTE: Coalition government is something that has never really happened in Canadian Parliamentary history. It cannot be ruled out now, however, since the rise of the Bloc as a large third party has undermined the traditional two party system in which one party could invariably be assumed to win a majority and minorities were short-lived. If the Bloc stays in the 55-60 seat range and neither the Liberals nor the Conservatives lose significant support, minority government will be the future of Canadian politics and will require adjustments to how the country is governed. Coalitions will presumably be one serious option. And if the NDP is essential to Liberal survival it might well have influence out of proportion to its numbers. This would also touch upon issues of importance to the United States, such as defense, environmental policy, foreign aid, and economic/regulatory policy. END NOTE.

-- Liberal Minority NDP = Less than Majority: If the NDP does not win enough seats to bring the two parties to a Parliamentary majority (which present polls point to as the most likely outcome), the Liberals, even with NDP support, do not have enough seats to govern effectively. The Conservatives and Bloc may in that situation decide they do not want to bring the government down immediately and vote with them on early confidence votes such as the budget and the Throne Speech, but they would try to exact a full pound of flesh to do so. The Liberals would finally have to govern as a minority, not the country's "natural governing party," managing business in Parliament somewhat humbly on a case-by-case basis.

But as the opposition found in the 38th Parliament, a party quickly loses credibility as the opposition by voting with the government on key issues. In this scenario Parliament would be even less effective than the last, and could also be very short-lived. The parties would need to replenish their campaign coffers, but Sean Durkan says the government could fall in a matter of months (Minority governments here typically do not last longer than six to nine months in any

event).

-- We also note another option open to the Governor General if faced with an essentially dysfunctional scenario where the Liberal minority, even with NDP support, still does not reach the 50 percent threshold. She could turn to Stephen Harper and asks him to try to form a government. Harper would then have to consider how to form a partnership that would be more stable than the one the Governor General rejected, the most probable being some form of arrangement with the Bloc.

WHAT WE KNOW (AND WHAT WE DON'T KNOW)

14. (C/NF) To sum up, we are uncertain how this election will turn out, or even how the campaigns will be run. But the following are important considerations:

-- The next government will likely be weaker than the current one; making it functional calls for a new model for governing or at least creative new governing arrangements that may not have been used in Canada before. This will then require a shaking out period as new roles and rules are developed.

-- Such minority government instability will be the rule, not the exception, over the next several years. It is even possible there could be another election in 2006.

-- Both parties will be looking for new leadership soon after the election in a bid to break the deadlock and come back with a working majority.

-- The Bloc Quebecois will be stronger, and with it the sovereignty issue will gain in prominence.

-- Issues of importance to the U.S. could be lost in the shuffle of a dysfunctional government that is unable to stake out bold positions and constantly distracted by the task of preparing for the next election.

-- The NDP may find itself in a stronger position and may be able to impose its policy choices in a way that is out of proportion to its numbers.

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WILKINS